

## Message Text

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ACTION EA-09

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8700

SECDEF WASHDC

INFO AMEMBASSY JAKARTA

CNO WASHDC

CINCPAC

C O N F I D E N T I A L SEOUL 6039

JOINT EMBASSY JUSMAG KOREA MESSAGE

CINCPAC FOR POLAD

REF: (A) JAKARTA 9834, (B) STATE 187321

1. MOST RECENT EMBASSY/JUSMAG CONTACT WITH KOREA TACOMA MARINE INDUSTRIES (MTMI) WAS IN EARLY JULY WHEN SHIPYARD MANAGER GEORGE SALISBURY PRESENTED KTMI SIDE ON ORIGINS AND CURRENT STATUS OF KTMI-TACOMA BOAT COMPANY (TBC) CONFLICT, INCLUDING INDONESIAN SALE.

2. ALTHOUGH KTMI WAS ORIGINALLY JOINT VENTURE BETWEEN KOREAN PARTNER (OLDER BROTHER OF FORMER PRIME MINISTER KIM CHONG P'IL) AND U.S. INTERESTS, THAT PARTNERSHIP OVER PAST TWO YEARS HAS BEEN IN SLOW BUT STEADY PROCESS OF DISSOLUTION WITH KOREAN SIDE OWNING 98 PERCENT BY JUNE, 1976. RESIDUAL CONTACT WITH TBC INCLUDES SUB-CONTRACT FOR TBC MANUFACTURE OF TWO OUT OF FIVE PGM VESSELS KTMI HAS CONTRACTED TO PROVIDE ROK NAVY. TBC HAS ALSO ACTED AS MATERIALS PROCUREMENT AGENT FOR KTMI-BUILT SHIPS AND APPARENTLY STILL HAS CONTRACT WITH KTMI FOR WEAPONS SYSTEMS INSTALLATGXN SUPERVISION/TECHNICAL ASSISTANCE ON ALL FIVE OF THE SECOND GENERATION VESSELS. IN EARLY 1976 KTMI ESTABLISHED IN U.S. A WHOLLY OWNED TRADING FIRM THROUGH WHICH IT IS NOW  
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PROCURING ITS OWN US-SOURCED MATERIALS AND THIS FIRM, WITH A

FORMER TBC OFFICIAL AS ITS DIRECTOR, IS ALSO ACTING AS THE U.S. LIAISON POINT FOR KTMI CONTACT WITH U.S. AND SOME THIRD COUNTRY FIRMS.

3. BAD BLOOD HAS CHARACTERIZED THE KTMI-TBC RELATIONSHIP FROM ALMOST THE OUTSET OF THE VENTURE, WHEN ROK HAD TO BAIL OUT TBC WITH 20 MIL AND THE KOREAN SIDE MADE IT WELL KNOWN AS LONG AS TWO YEARS AGO THAT IT PLANNED TO MARKET ALUMINUM-HULLED FAST PATROL BOATS ANYWHERE IT COULD FIND A MARKET. THE TWO FIRMS FIRST CROSSED HORNS IN THAILAND OVER A CONTRACT RECENTLY AWARDED TO ITALIAN FIRM, IN SPITE OF KTMI'S LOW BID SUBMITTED AFTER CUTOFF DATE.

4. KTMI HAS APPARENTLY BEEN IN CONTACT WITH INDONESIAN NAVY FOR MANY MONTHS AND IN MAKING ITS APPROACH IS VERY MUCH AWARE OF TBC'S CONCERN AND IN FACT OF REPEATED TBC THREATS TO BLOCK SALE WITH USG INTERVENTION. KTMI CLAIMS THAT VESSEL IT IS NOW OFFERING TO INDONESIA IS SUFFICIENTLY DIFFERENT IN DESIGN AS TO PRECLUDE ANY SUCCESSFUL USG OR TBC LEGAL ACTION. KTMI STATES THAT IN 1975 IT CONTRACTED FOR THE DESIGN OF AN ALUMINUM HULLED GAS TURBINE POWERED FAST PATROL BOAT WITH A GROUP OF QUALIFIED AND ESTABLISHED NAVAL DESIGNERS. THIS DESIGN TEAM WAS FORMERLY EMPLOYED BY TBC AND, IN FACT, CONTRIBUTED TO TBC DESIGN EFFORT ON ORIGINAL PGM CLASS VESSELS IN EARLY 1960'S FOR US NAVY. KTMI CLAIMS THAT THIS NEW DESIGN, WHICH IT NOW OFFERING TO INDONESIA, IS IN PROCESS OF INDEPENDENT DESIGN REVIEW AND TOWING TANK TEST UNDER CONTRACT WITH US SPECIALIST. KTMI NOTES THAT WHILE HULL LINES VERY SIMILAR, VESSEL IS SOMEWHAT LARGER AND SHARES THOSE POINTS OF SIMILARITY WITH TBC DESIGN AS WOULD CHARACTERIZE ANY ALUMINUM CRAFT OF SIMILAR SIZE AND PERFORMANCE REQUIREMENT.

5. WHILE KTMI IS FULLY COGNIZANT OF ITS LEGAL RESPONSIBILITIES IN THE COMMERCIAL ARENA, IT APPEARS MUCH LESS CONCERNED WITH POSSIBILITY OF USG INTERVENTION. APPARENTLY KTMI FEELS THAT ITS ABILITY TO DEMONSTRATE THAT ITS DESIGN IS ITS OWN WILL FORESTALL ANY USG INVOLVEMENT IN THAT THE APPLICABLE US MUNITIONS CONTROL PERMIT PERTAINS ONLY TO "TACOMA BOAT PRODUCTS". FUNDAMENTAL POINT ABOUT WHICH ALL EXISTING AND POTENTIAL COMMERCIAL AND POLITICAL ANIMOSITY REVOLVES APPEARS TO EMBASSY TO BE THE CONFIDENTIAL

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DESIGN WHICH KTMI IS PRESENTLY OFFERING INDONESIA. THUS FAR JUSMAG-EMBASSY CONTACTS WITH ROK MND AND KTMI HAVE NOT PROVIDED A CLEAR UNDERSTANDING ON THIS POINT, WITH KTMI BEING SOMEWHAT EVASIVE BUT NOT UNREASONABLE. ROK MND, ALTHOUGH SALE IS TECHNICALLY A COMMERCIAL ENDEAVOR, REMAINS INTERESTED IN THE PROBLEM, AND IS BY IN LARGE CONFIDENT THAT KTMI CAN COMPLETE THIS SALE WITHOUT VIOLATING ANY COMMERCIAL OR GOVERNMENT AGREEMENTS BETWEEN THE US AND THE ROK. OUR GUESS IS THAT KTMI

MAY HAVE INITIALLY OFFERED INDONESIA WHAT WAS BASICALLY THE TBC  
US MUNITIONS CONTROLLED-PGM DESIGN. AS NEGOTIATIONS PROGRESSED,  
KTMI MAY HAVE REALIZED THE POTENTIAL FOR CONFLICT ON THE  
DESIGN AND DECIDED TO GO TO THE DESIGN BOARD FOR ONE OF ITS  
OWN. WHILE THE ABOVE IS ONLY EDUCATED SPECULATION, IT WOULD  
SEEM TO OFFER THE MOST PLAUSIBLE EXPLANATION FOR THE SEQUENCE  
OF EVENTS.

6. IN AN ATTEMPT TO ANSWER THE FUNDAMENTAL QUESTION JUSMAG/  
EMBASSY WILL CONTACT KTMI AND APPROPRIATE ROK GOVERNMENT  
OFFICIALS, EXPLAIN REF A PARA 3 DETAILS, AND SOLICIT THE  
COOPERATION OF ALL PARTIES. KTMI WILL BE ENCOURAGED IN THE  
INTERESTS OF RESOLVING THE CONTROVERSY BEFORE IT IMPACTS ON  
THEIR SALE TO PROVIDE AS FULL A DESCRIPTION OF THEIR VESSEL  
AS IS POSSIBLE. UNDER THE ASSUMPTION THAT WASHINGTON WOULD  
PREFER TO REVIEW THE DECISIONS AND IS BEST EQUIPPED TO DO SO,  
WE WILL ATTEMPT TO SECURE AND CPUCH SAME WITH APPROPRIATE  
GUARANTEES TO KTMI THAT THEIR PROPRIETARY RIGHTS WILL BE  
PROTECTED BY THE US GOVERNMENT. ANTICIPATE DISCUSSIONS WITH  
KTMI AND APPROPRIATE ROKG AGENCIES AS NECESSARY WITHIN THE  
NEXT WEEK. WILL ADVISE SOONEST.

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